

New tax rules for big companies?

NO

Shift would increase complexity, instability

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STORYCHAT

The adoption of a combined corporate income-tax reporting structure in Iowa would not be the kind of a good tax policy that will allow Iowa to continue to attract new businesses and allow existing businesses to grow.

Iowa companies want to do the right thing and pay their fair share of taxes as well as be good corporate citizens that provide jobs and opportunity to the people of Iowa. The multi-state companies that do business in Iowa respect our Iowa values and contribute greatly to our state's economy.

Combined tax reporting requires a corporation with any reporting requirement in Iowa to combine all its subsidiaries that are deemed "unitary" and file an Iowa return based upon an apportioned allocation of tax liability to Iowa. States have varied in their application and interpretation of "unitary" and consider different factors. This makes the unitary investigation unduly complex and difficult to apply.

One common situation occurs when a strong central-management structure exists somewhere in the United States. Then all the subsidiaries may be considered unitary and may be combined for reporting purposes. Iowa does not require combined reporting.

Moving from separate-entity reporting to combined unitary reporting is a major tax-structure change, and the consequences of such a change must be considered carefully. It would add complexity to an already-complex system and may lead to costly litigation.

Additionally, this type of reporting should not be considered a means to increase general-fund revenues. It is entirely possible that Iowa could see a revenue decrease. It is difficult to accurately determine whether many businesses in Iowa will benefit or lose if combined reporting is adopted. Taxes will be raised for some companies and lowered for others. The predictability of tax liability is a major factor in determining whether a company can expand or will have to slow operations.

Combined reporting has been tried before with unfavorable results. Twenty years ago, Florida adopted combined reporting and then repealed it less than a year later due to its impact on economic development. Connecticut adopted combined reporting in 2003, but repealed it the same day, also due to economic-development concerns. On Jan. 1, 2006, Vermont became the 17th state to require unitary combined reporting. Vermont lowered its corporate income-tax rate so that the legislation implementing unitary reporting would be revenue neutral.

Adopting corporate combined reporting would not "close corporate loopholes," but instead would be a fundamental change in Iowa's tax structure that could lead to unpredictability and instability.

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